

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 PRS-01  
AGRE-00 ITC-01 /094 W  
-----076180 101921Z/45

R 101247Z AUG 77  
FM AMEMBASSY BUENOS AIRES  
TO SECSTATE WASHDC 1687  
INFO AMEMBASSY ASUNCION  
AMEMBASSY BRASILIA  
AMEMBASSY MONTEVIDEO  
AMEMBASSY SANTIAGO

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E.O. 11652: N/A  
TAGS: ECON, EFIN, ELAB, EAGR, ETRD, AR  
SUBJECT: ECONOMIC ALERT REPORT - ARGENTINA

REF: (A) STATE 180067, (B) BUENOS AIRES A-67

### A. MAJOR ECONOMIC PROBLEMS

#### 1. INFLATION

ARGENTINA'S MOST PRESSING ECONOMIC PROBLEM IS INFLATION.  
ALTHOUGH THE GOA HAS MADE CONSIDERABLE PROGRESS IN REDUCING  
THE ANNUAL RATE OF INFLATION FROM A LEVEL OF AROUND 600  
PERCENT PREVAILING IN MARCH 1976 WHEN THE CURRENT GOVERN-  
MENT ASSUMED POWER, ARGENTINA'S INFLATION RATE FOR FULL-  
YEAR 1977 IS EXPECTED TO BE IN THE RANGE OF 120-150 PERCENT  
-- STILL ONE OF THE HIGHEST IN THE WORLD. IN COMBATING  
INFLATION, THE GOA HAS USED A VARIETY OF MEASURES: WAGE  
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CONTROLS; REDUCTION OF THE BUDGET DEFICIT; MODERATION IN  
THE EXPANSION OF THE MONEY SUPPLY; PRICE CONTROLS ON LEADING  
FIRMS; AND SELECTIVE REDUCTION IN TARIFFS IN AN EFFORT  
TO ESTABLISH A CEILING ON DOMESTIC PRICE LEVELS BY  
SUBJECTING LOCAL PRODUCTS TO FOREIGN COMPETITION. THE  
GOA HAS MADE IT CLEAR THAT ITS EFFORTS TO COMBAT  
INFLATION IN THE SECOND SEMESTER OF 1977 WILL BE

INTENSIFIED, PARTICULARLY THROUGH A TIGHT MONEY POLICY  
AND INCREASED TAX COLLECTION TO REDUCE THE BUDGET  
DEFICIT. (BA 5051, BA A-60, BA 5494.)

## 2. ECONOMIC RECESSION

THE VIDELA GOVERNMENT INHERITED AN ECONOMY IN RECESSION  
FROM THE PERONIST REGIME. IN VIEW OF ITS PRIORITY TO  
COMBAT INFLATION, THE GOA HAS HAD A DIFFICULT TASK IN  
BRINGING ABOUT A RECOVERY BUT DECLINE IN GDP WAS  
REVERSED IN THE FIRST SEMESTER AND GROWTH OF ABOUT  
3-4 PERCENT IS EXPECTED FOR THE YEAR. MUCH OF THE  
RECOVERY, HOWEVER, IS ATTRIBUTABLE TO THE AGRICULTURAL  
SECTOR WHERE GOOD WEATHER AND SOUND GOVERNMENT POLICY  
COMBINED TO PRODUCE BUMPER CROPS AND RECORD EXPORTS.  
MANUFACTURING REMAINS RELATIVELY DEPRESSED, WITH  
FIRMS PRODUCING CAPITAL GOODS, INPUTS FOR AGRICULTURE,  
OR PROCESSING AGRICULTURAL PRODUCTION FARING BETTER  
THAN THOSE CATERING TO THE DOMESTIC CONSUMER MARKET.

## 3. REDUCED REAL WAGES

AS A RESULT OF OFFICIAL CONTROLS, THERE IS GENERAL  
CONSENSUS THAT REAL WAGES HAVE FALLEN -- ALTHOUGH THE  
EXTENT OF THE DECLINE IS SUBJECT TO INTENSE DEBATE.  
SOME TYPES OF WAGE EARNERS HAVE SUFFERED MORE THAN  
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OTHERS, DEPENDING ON THE DEGREE TO WHICH EMPLOYERS HAVE  
OBSERVED GOVERNMENT-IMPOSED WAGE CEILINGS. WAGE  
CONTROLS HAVE LED TO SOME RESTIVENESS IN LABOR CIRCLES  
BUT THE GOA HAS THUS FAR MANAGED TO KEEP DISRUPTIONS AT  
A MINIMUM. WITH THE ECONOMY ON THE UPSWING, REAL WAGES  
ARE UNLIKELY TO DECLINE ANY FURTHER BUT NEITHER WILL  
THEY INCREASE AS FAST AS MOST PEOPLE WOULD LIKE. LABOR  
DISCONTENT THUS REMAINS A THREAT TO THE GOA AND COULD  
BE GALVANIZED BY A POLITICAL CRISIS. (BUENOS AIRES A-85  
OF JUNE 29, 1977.)

## 4. STRUCTURAL DISTORTIONS

THE VIDELA ADMINISTRATION'S FREE MARKET ORIENTATION IS  
DESIGNED TO ELIMINATE OR REDUCE THE ECONOMIC DISTORTIONS  
INHERITED FROM THE PERONIST REGIME. IN THE PROCESS,  
SOME SECTORS WILL NECESSARILY SUFFER AT THE EXPENSE OF  
OTHERS. THE INDUSTRIAL SECTOR, AND IN PARTICULAR SMALL  
INEFFICIENT FIRMS CATERING TO THE DOMESTIC CONSUMER  
MARKET, WILL BE SUBJECT TO INCREASING COMPETITIVE  
PRESSURES FROM ABROAD. THIS SECTOR, THEREFORE,  
REPRESENTS A POTENTIALLY DANGEROUS SOURCE OF OPPOSITION

TO THE CURRENT GOVERNMENT (BA 7628 OF NOV. 22, 1976).

B. OUTLOOK FOR THE NEXT TWELVE MONTHS

ASSUMING POLITICAL AND ECONOMIC CONTINUITY, THE

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ARGENTINE ECONOMY SHOULD CONTINUE TO REGISTER MODERATE GROWTH IN GDP OVER THE NEXT TWELVE MONTHS. THE INDUSTRIAL AND CONSTRUCTION SECTORS SHOULD RESPOND FAVORABLY OVERALL TO INCREASED PUBLIC AND PRIVATE SECTOR INVESTMENT. AGRICULTURAL PRODUCTION, ON THE OTHER HAND, IS EXPECTED TO DECLINE IN RELATION TO THE RECORD 1976/1977 CROP. THIS WILL AFFECT ADVERSELY FIRMS PROVIDING GOODS AND SERVICES FOR AGRICULTURE OR PROCESSING AGRICULTURAL PRODUCTION. LOWER GRAIN PRODUCTION AND PRICES, WILL ALSO PROBABLY REDUCE ARGENTINA'S EXPORTS IN 1978 IN RELATION TO 1977. WITH IMPORTS EXPECTED TO INCREASE AS A RESULT OF THE ECONOMIC RECOVERY, THE BALANCE OF TRADE SURPLUS ENJOYED BY ARGENTINA IN 1976 AND 1977 WILL PROBABLY BE GREATLY REDUCED OR ELIMINATED ALTOGETHER. ARGENTINA WILL THEREFORE HAVE TO DEPEND TO A GREATER DEGREE ON AN INFLOW OF NEW CAPITAL, ROLL OVER OF EXISTING DEBT, AND/OR DRAWDOWN OF ITS RESERVES TO MEET THE OVER ONE

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BILLION DOLLARS IN DEBT SERVICE PAYMENTS DUE IN 1978.  
CONTINUED PROGRESS MAY BE EXPECTED IN REDUCING THE  
BUDGET DEFICIT, THE EXPANSION OF THE MONEY SUPPLY, AND  
INFLATION.

C. CRITICAL POINTS

1. CHANGE IN POLITICAL OR ECONOMIC LEADERSHIP

WHILE PRESIDENT VIDELA AND MINISTER OF ECONOMY MARTINEZ  
DE HOZ HAVE WEATHERED VARIOUS CRISES AND APPEAR IN A  
STRONG POSITION, THEY BOTH HAVE ENEMIES WHO WOULD TAKE  
ADVANTAGE OF ANY POLITICAL OR ECONOMIC SETBACK TO  
REMOVE THEM. THE REMOVAL OF EITHER PRESIDENT VIDELA  
OR MARTINEZ DE HOZ COULD GREATLY UNDERMINE BUSINESS  
CONFIDENCE AND LEAD TO A CHANGE IN ECONOMIC ORIENTATION  
IF THEY WERE REPLACED BY POPULIST, STATIST, OR  
NATIONALIST INDIVIDUALS. SUCH A CHANGE WOULD PROBABLY  
REVERSE THE IMPROVEMENT IN THE CLIMATE FOR PRIVATE  
INVESTMENT (BOTH LOCAL AND FOREIGN), JEOPARDIZE  
PROGRESS MADE IN REDUCING PROTECTIONIST BARRIERS AND  
ECONOMIC DISTORTIONS, AND POSSIBLY LEAD TO BALANCE OF  
PAYMENTS DIFFICULTIES DUE TO CAPITAL FLIGHT.

2. WEATHER AND PRICES FOR AGRICULTURAL PRODUCTS

ARGENTINA IS HIGHLY VULNERABLE TO THE VARIABILITY OF  
WEATHER. AS INDICATED ABOVE, ARGENTINA CANNOT EXPECT  
TO BENEFIT DURING THE SECOND HALF OF 1977 FROM THE  
ALMOST IDEAL WEATHER CONDITIONS EXPERIENCED IN LATE  
1976 AND EARLY 1977 AND THEREFORE SOME REDUCTION IN THE  
ECONOMIC CONTRIBUTION FROM THE AGRICULTURAL SECTOR MAY  
BE EXPECTED IN 1978. SHOULD POOR WEATHER CONDITIONS  
PREVAIL DURING THE REST OF 1977, ARGENTINA'S ECONOMY  
AND ABOVE ALL EXPORTS WOULD SUFFER A SERIOUS BLOW --

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PARTICULARLY SINCE WORLD PRICES FOR GRAINS ARE EXPECTED  
TO BE LOW.

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## Message Attributes

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**Channel Indicators:** n/a  
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**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
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**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Previous Classification:** n/a  
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**Reference:** 77 STATE 180067, 77 BUENOS AIRES A-67  
**Retention:** 0  
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**Review Media Identifier:**  
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**Review Transfer Date:**  
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**Secure:** OPEN  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009